

Global Market Strategy

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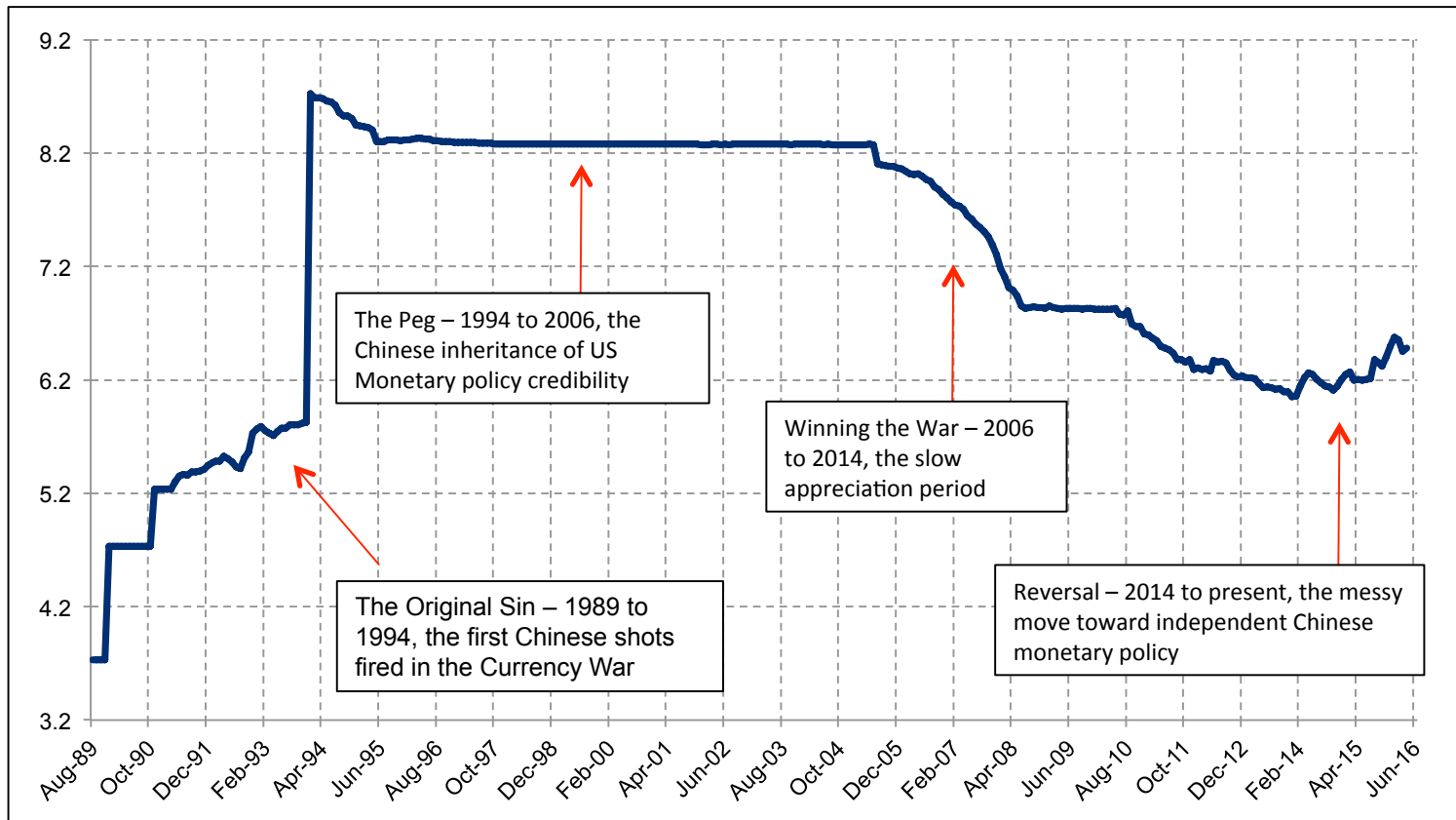
May 2016

Temporary Peace in Global Currency War

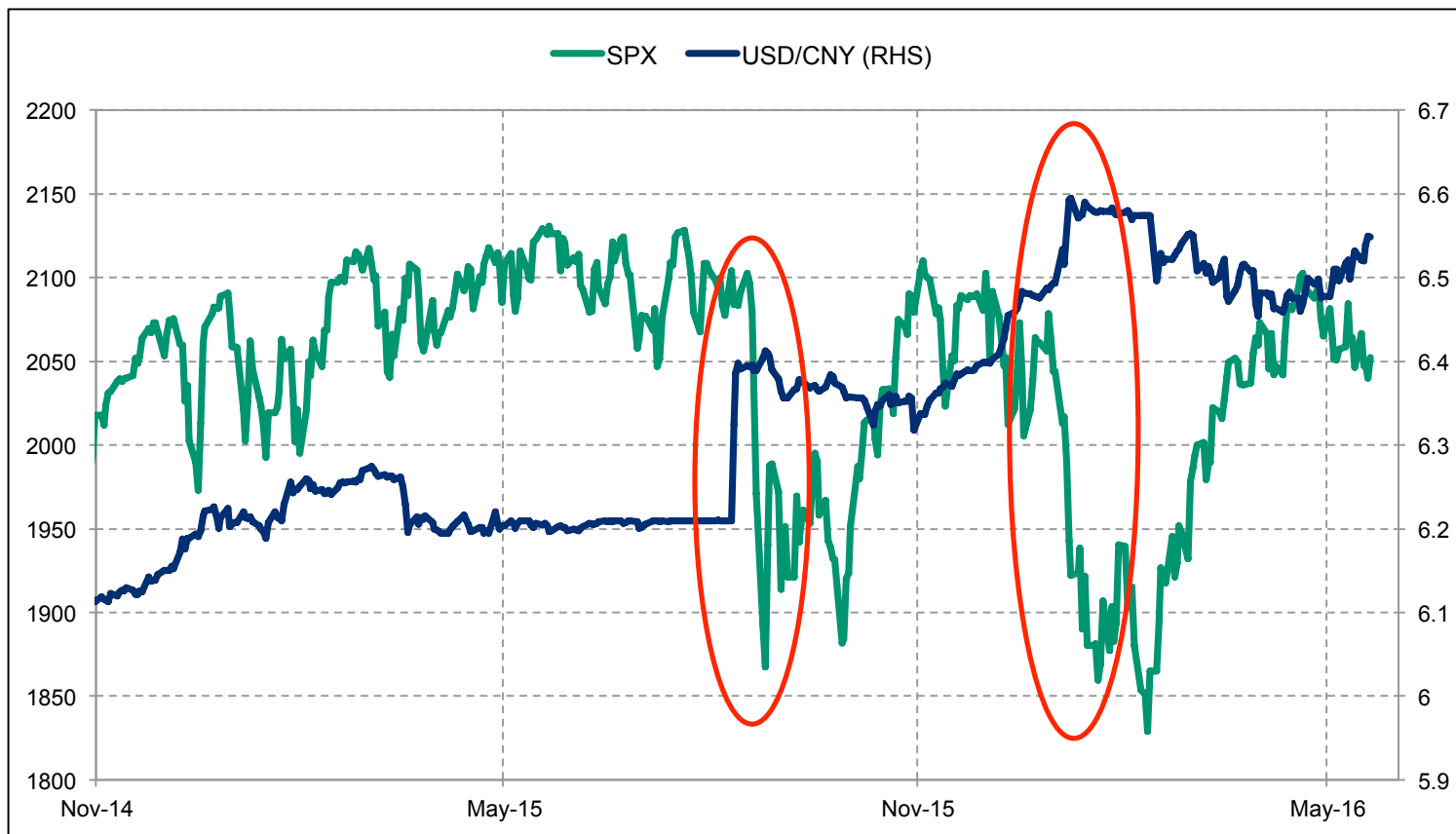
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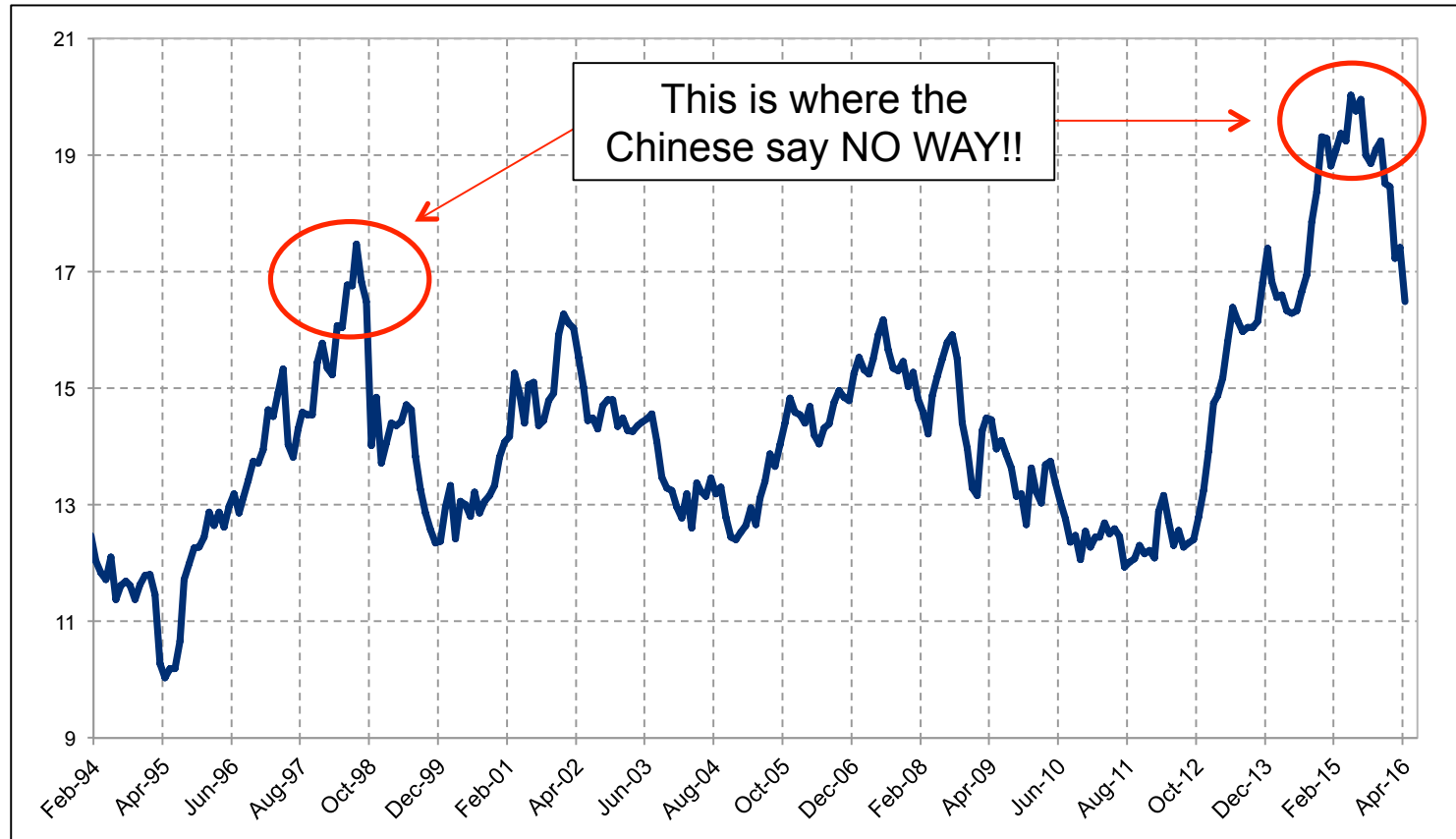
USD/CNY (August 1989 – present)



MESSY



CNY/JPY (February 1994 – present)



EUR/CNY (January 1999 – present)





A Temporary Currency War Détente

- The Chinese will fight any material strengthening of the USD.
- Significant Fed rate rises or any BoJ/ECB policies designed to significantly weaken then Yen/Euro will spark a nasty Chinese devaluation reaction.
- The “détente agreement” in place since the G20 in Shanghai is straightforward: If the Fed backs down on plans for significant rate hikes, and the BoJ/ECB only focus on domestic “credit easing”, the Chinese will not devalue.



Implications of the Détente

- The Fed and the US political establishment do not want another August or January heading into the election season. Hence the Fed will be very slow and cautious when moving towards any tightening.
- The US will push on the Japanese and the Europeans to back down on any monetary policy moves which generate significant currency weakening.
- The agreement will likely stay in place until November - then all future bets are dependent on the US election outcome.
- US and EM risk assets should be the greatest short term beneficiaries of the this temporary détente in the currency war.



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